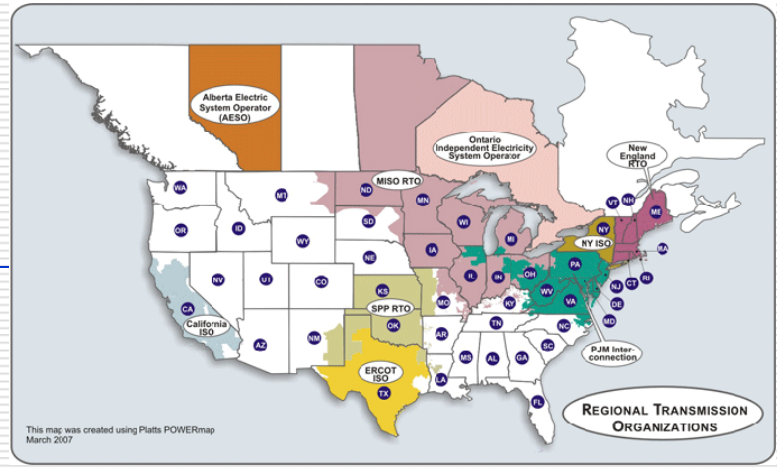
U.S. Climate Policy & Utility Regulation

US-EU Energy Regulators Roundtable
Washington, DC
15 November 2008

Richard E. (“Rick”) Morgan
Commissioner
Public Service Commission
of the District of Columbia

Snapshot of U.S. Electricity Industry



- Dominated by investor-owned utilities
  - Regulated IOUs deliver ~70% of retail electricity
  - Remainder delivered by municipal, cooperative, & state-owned, & federal utilities
- Retail regulation by 51 state PUCs
- Mix of competitive markets & traditional regulation
- Regulatory responsibility shared between state PUCs & FERC
  - Growing influence of RTOs & FERC
- Generation mix is ~50% coal-fired

Environmental authority of state PUCs

- PUCs aren't just economic regulators
- State statutes provide general or explicit authority to consider environment

In supervising and regulating public service companies the commission shall consider the public safety, the economy of the State, the conservation of natural resources, and the preservation of environmental quality.

--Maryland Code Ann. §2-113(2)

Climate Policy & Energy Are Intertwined

- Electric & gas industries dominate U.S. CO_2 emissions
  - 40% of U.S. CO_2 from power generation
  - 14% from retail natural gas usage
- PUCs will have key role in U.S. response to climate change
  - Selection of energy resources
  - Approval of financing & cost recovery for utilities
  - Protecting ratepayer interests
- 20 states have GHG reduction targets

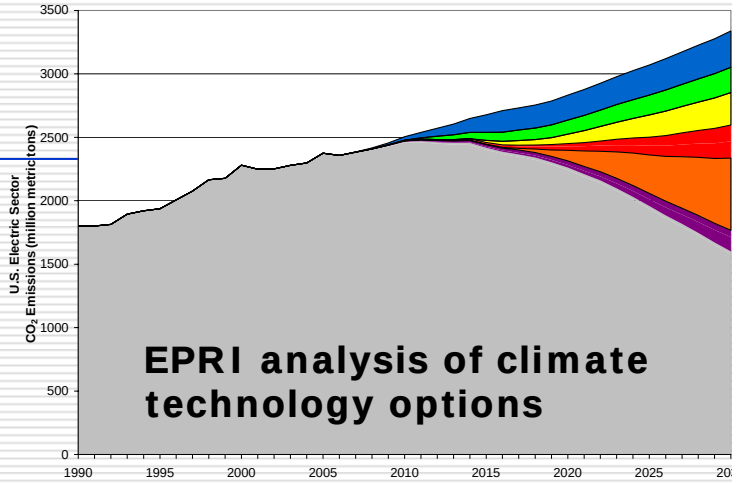
NARUC addresses climate policy

- Diversity of views among NARUC membership
- 19 climate-related resolutions since 1995
- Priority climate issues:
  - Focus on policy, not science
  - Encourage technological change
  - Balance compliance costs vs. risks & uncertainty
  - Preserve state authority
- Coordination via NARUC's Task Force on Climate Policy (since March 2007)

NARUC's Task Force on Climate Policy

- Comprised of 10 commissioners from 4 NARUC standing committees
- Two primary goals:
  - Represent regulatory community in national policy debate re: climate change
  - Educate NARUC membership re: critical decisions regulators must make re: climate

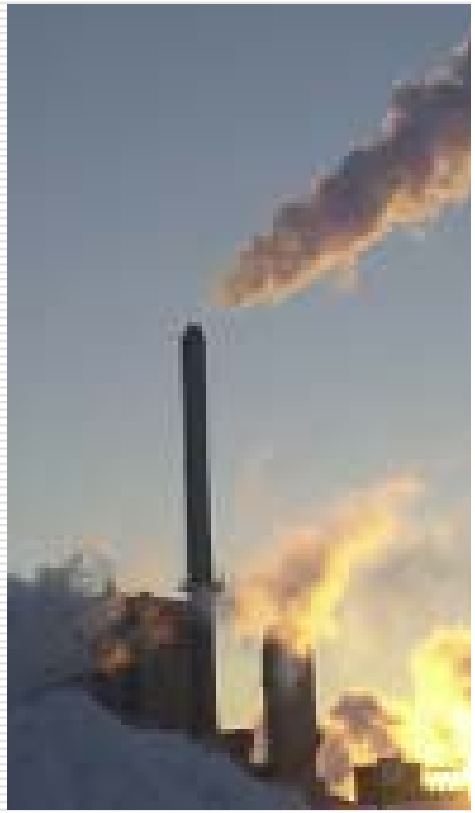
Educating regulators re: climate policy



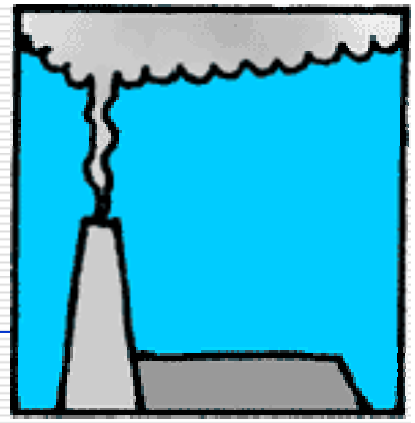
- NARUC Climate Task Force programs & webcasts:
  - Understanding climate science & technology options
  - Comparing market-based approaches
  - Cap & trade design criteria
- Dialogue with financial community
  - Cost-containment mechanisms
  - Incentives for technology advancement
- Nationwide climate workshops for state regulators
- Andrew Keeler/NRRI paper:
  - *State Commission Electricity Regulation Under a Federal Greenhouse Gas Cap-and-Trade Policy* (January 2008)

NARUC resolutions re: federal climate policy (2007)

- Preserve reliable & affordable supplies of electricity & natural gas
- Minimize adverse cost impacts
  - balance costs & benefits
  - reasonable pace of implementation
  - economy-wide approach
- Encourage technological development
- Qualified support for pricing carbon
  - Uncertainty hampering investment in electricity industry infrastructure
- Cap & trade design principles



NARUC's CO_2 cap & trade design principles



- Auctioning of allowances is most efficient mechanism
- Transitional no-cost allowances during phase-in of auction
- Allowance allocation mechanism should:
  - Produce reasonable outcomes in any regulatory structure
  - To ensure customer benefit, assign any no-cost allowances to regulated local distribution companies (LDCs) -- not to generators, load-serving entities
- Reflect baseline emissions of LDC's supply
- Fairly treat regions, companies
- Cost-containment measures to balance environmental achievement w/ price stability & minimization of consumer impacts

NARUC resolution re: state climate policies

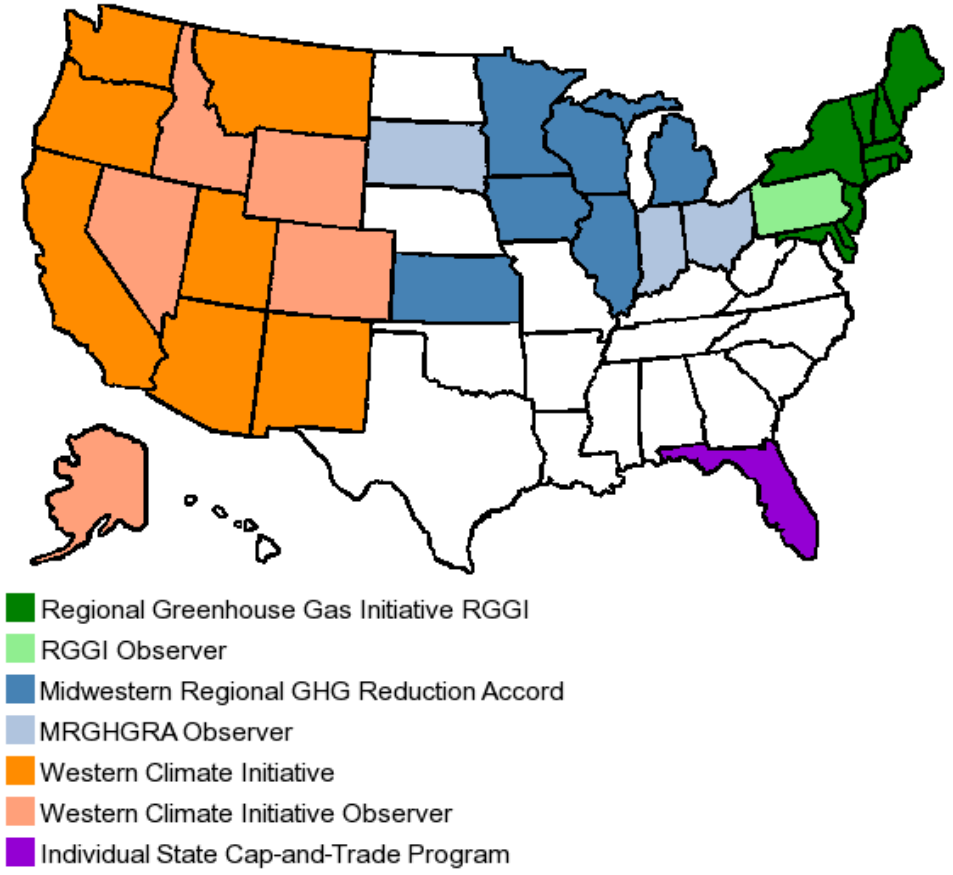
- Cost per ton of reducing GHGs can vary dramatically depending on path chosen
- PUCs should consider adoption of polices to:
  - Preserve system reliability while minimizing cost
  - Facilitate greater reliance on low-carbon resources & support R&D funding
  - Ensure timely utility recovery of prudent costs
  - Require utilities to assess and incorporate climate-related risks in planning & decisions

Climate risk & utility regulation

- Growing carbon risk
  - New coal generation at risk
  - Banks reluctant to provide financing
  - Carbon capture & storage (CCS), advanced nuclear may require subsidies
- Role for PUCs
  - Require prudent risk management
  - Consider non-traditional resources
  - Consider incentives for technology advancement
  - Balance costs & risks between shareholders & ratepayers
  - Coordinate with environmental, energy agencies

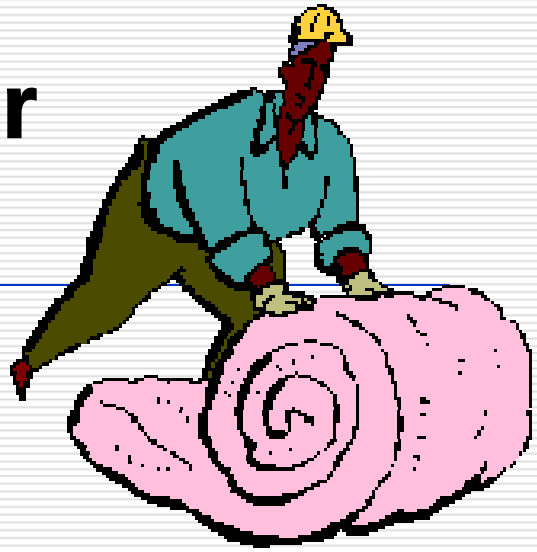
Examples of U.S. state & regional activities re: climate

- State policies:
  - California
  - Washington
  - Oregon
  - Florida
- Regional climate initiatives:
  - Regional Greenhouse Gas Initiative (RGGI)
  - Midwest Greenhouse Gas Reduction Accord
  - Western Climate Initiative (WCI)



Source: Pew Center on Global Climate Change

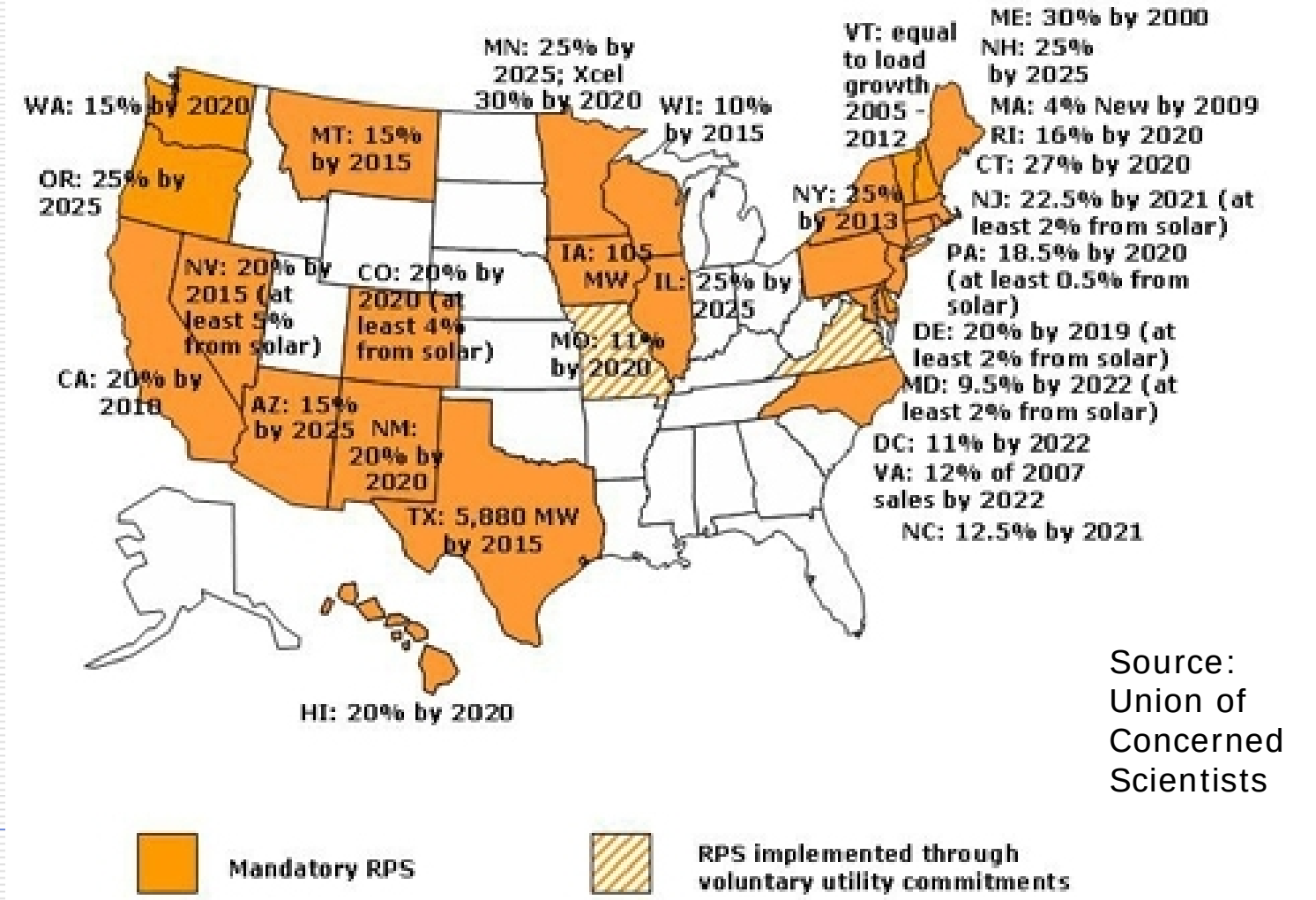
U.S. utilities help deliver energy efficiency



- Investing demand-side resources
  - Utility-managed DS programs
  - System benefit charges
- Providing customer services & incentives
- Market transformation
- Advanced metering & smart grid
- Support for improved codes & standards
- Ratemaking policies that reward DS resources
  - Decoupling, rate incentives
- EE is a least-cost resource for reducing CO2 emissions

National Action Plan for Energy Efficiency:
http://www.epa.gov/cleanrgy/energy-programs/napee/index.html

28 US jurisdictions have adopted renewables portfolio standards (RPS)



Source: Union of Concerned Scientists

What to expect from 111th Congress re: climate policy

- Political climate more favorable in Congress & White House, but uncertainties remain
- President-elect Obama supports limiting emissions via cap & trade mechanism
  - Auction or allocated allowances?
- House cap & trade bill likely
  - Letter from 150+ House Democrats (Rep. Waxman) calls for aggressive legislation
  - Dingell-Boucher discussion draft (Oct 2008)
- Senate plans unknown
  - Lieberman-Warner bill is passé.
  - Sen. Barbara Boxer (D-CA) will be key player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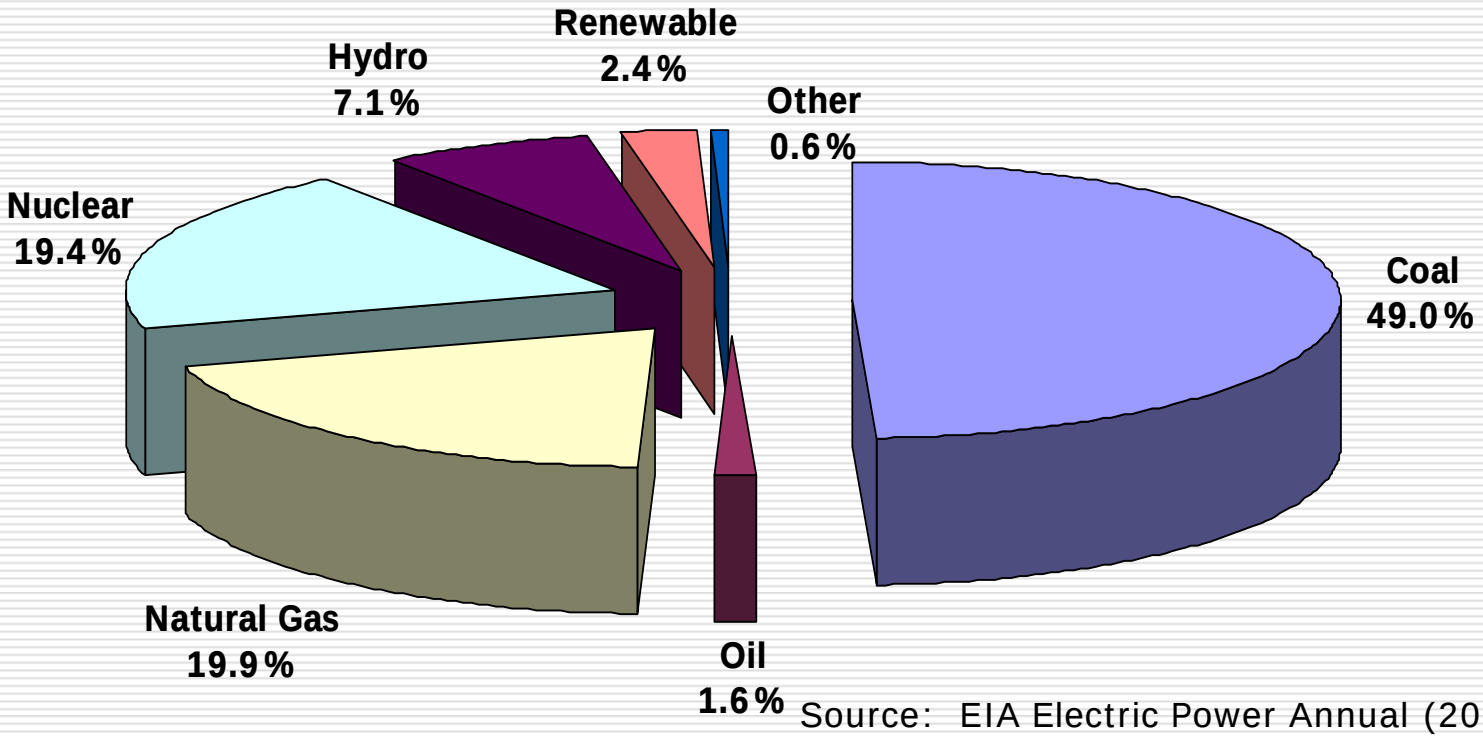
RENEWABLE ENERGY SOURCES
HARVESTING THE WIND

Thank you!

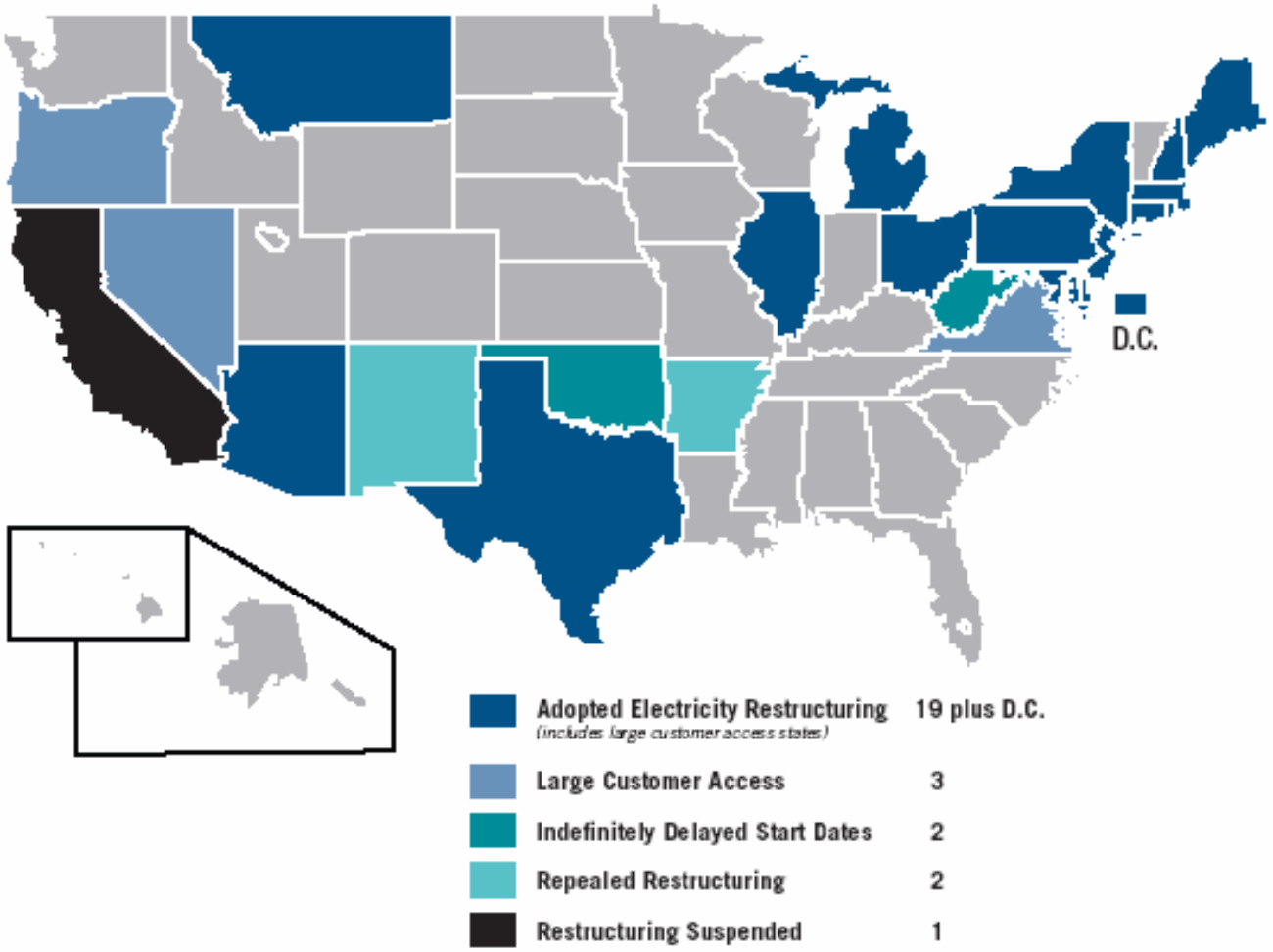
Appendix

Net U.S. Electricity Generation, 2006



Source: EIA Electric Power Annual (2006)

Status of Electricity Competition in the States



Source: Edison Electric Institute, status as of May 2007.

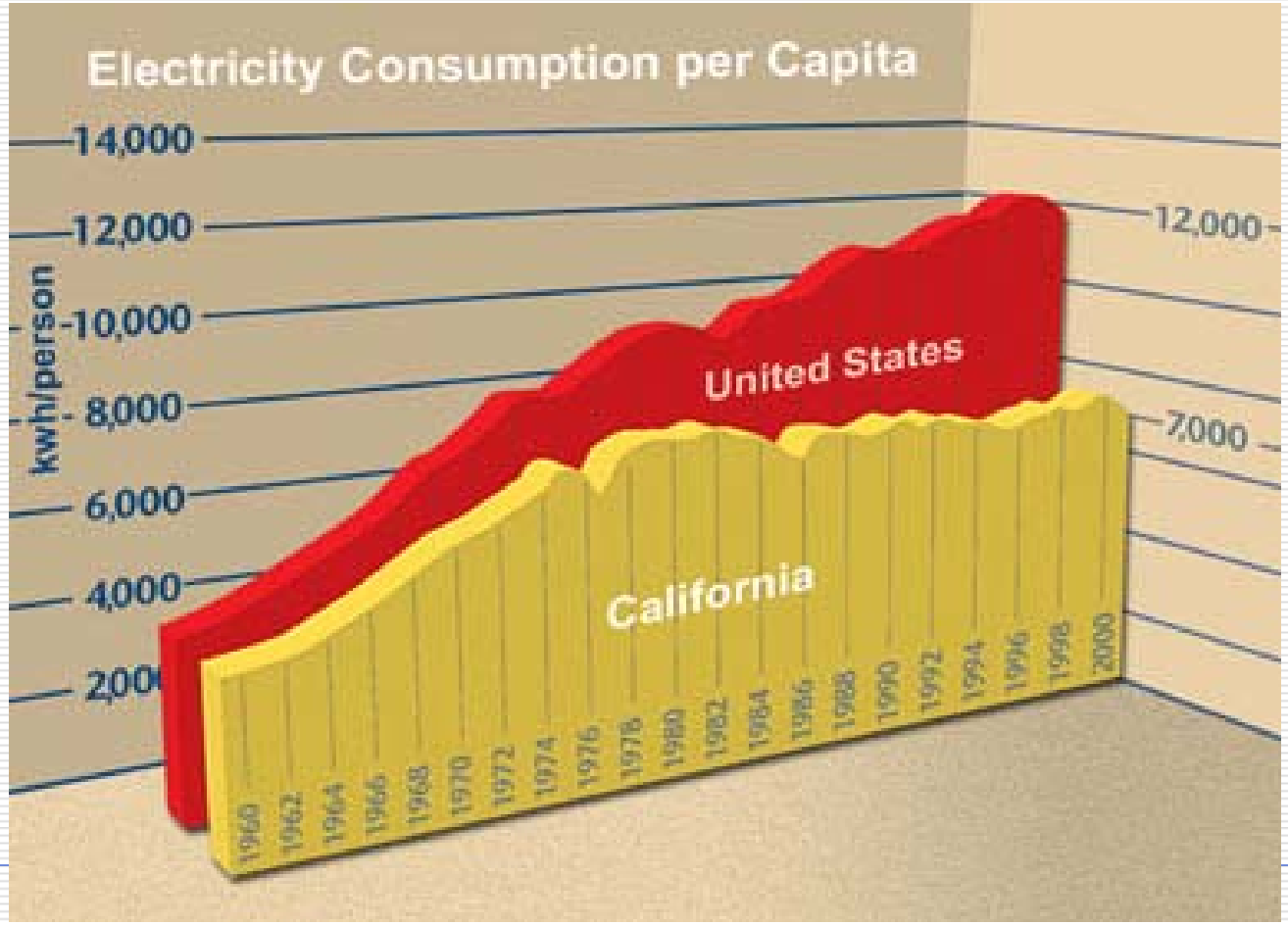
Role of FERC

- Regulate *wholesale* electricity markets, i.e. interstate commerce
- Oversee RTOs & transmission owners
  - approve tariffs for wholesale markets
  - investigate & remedy market power abuses
- Encourage needed transmission investment
  - e.g. ROR “adders” for new transmission
- Apply new “backstop” authority to approve transmission projects, per EPAct §1221
- Approve mergers & regulation of holding companies

Examples of State Actions to Promote Energy Efficiency

- **Arkansas** utilities are financing customer energy savings through energy audits, weatherization, & appliance tune-ups
- **California** leads the nation with aggressive funding and incentives for utilities to invest in customer EE.
- **Maryland**, **Minnesota**, and **Ohio** have aggressive energy-saving goals.
- **Oregon**'s Energy Trust helps the state's utilities target all cost-effective energy savings.
- **New York** is pursuing EE through its public benefit fund and EE portfolio standard.
- **Vermont**'s "Energy Efficiency Utility" has reduced the state's load growth by two-thirds since 2000.

California's Success with Energy Efficiency over 30 Years



U.S. National Action Plan for Energy Efficiency

U.S. National Action Plan for Energy Efficiency Recommendations

1. Recognize energy efficiency as a high-priority energy resource.
2. Make a strong, long-term commitment to implement cost-effective energy efficiency as a resource.
3. Broadly communicate the benefits of and opportunities for energy efficiency.
4. Provide sufficient, timely and stable program funding to deliver energy efficiency where cost-effective
5. Modify policies to align utility incentives with the delivery of cost-effective energy efficiency and modify ratemaking practices to promote energy efficiency investments.

Key U.S. resources on climate policy & utility regulation

- NARUC Task Force on Climate Policy
  http://www.naruc.org/committees.cfm?c=58
- Pew Climate Center
  http://www.pewclimate.org/publications
- Resources for the Future
  http://www.weathervane.rff.org/
- National Commission on Energy Policy
  http://www.energycommission.org/
- National Action Plan for Energy Efficiency
  http://www.epa.gov/cleanrgy/energy-programs/napee/index.html
- World Resources Institute
  http://www.wri.org/climate/international-and-us-action